

Credit Union Representatives
Meeting at the Office of the Federal Reserve Board on September 5, 2007 and May 28, 2008
Regulation Z (Truth in Lending)
R-1286

On behalf of credit unions and credit union service providers, representatives of Credit Union National Association, CUNA Mutual, and Vystar Credit Union met with staff of the Board's Division of Consumer and Community Affairs on Wednesday, September 5, 2007.

The representatives of the credit unions and credit union service providers:

- Discussed the proposed revisions to the definition of "open-end credit." They were particularly concerned with the proposed commentary language providing (i) that each subaccount must meet the self-replenishing criterion as loan payments are made and (ii) that there may not be separate approval for each advance in connection with open-end credit.
- Summarized the likely impact of the proposed changes to the definition of open-end credit. They indicated that the impact of the proposed changes to the definition of open-end credit would fall heavily on credit unions, and estimated that approximately half of credit unions use multifeatured open-end lending as their primary means of lending. They asserted that they are aware of no consumer complaints regarding the disclosures given for multifeatured open-end plans.
- Explained how the auto financing process works for a multifeatured open-end plan, and asserted that the proposal would adversely affect credit unions' ability to compete for point-of-sale auto financing.
- Commented that credit unions' auto loans accrue only simple interest and have no fees, so the interest rate quoted in the open-end disclosures would be the same as the APR that a consumer would receive with closed-end disclosures.
- Expressed concern that the proposed changes would disadvantage credit unions with a broad geographic, and in some cases international, scope of membership. They asserted that re-characterizing multifeatured open-end lending as closed-end would require consumers to sign and return additional documentation which would be more difficult or costly for consumers that are not able to come to the branch.
- Reported on a survey commissioned by CUNA Mutual comparing consumer experiences with open-end lending as compared to closed-end lending. The general conclusions of the survey were that consumers value convenience and

prefer options to access their financial services through the phone, internet, and the branch.

- Summarized the expected costs for compliance with the proposed rules. They believe that the one-time costs for switching would average \$100,000 per credit union (for a total of \$350 million for 3,500 credit unions). They indicated that there would also be ongoing costs, such as additional mailing, faxes, state fees, and branch time to handle loans. Further, the Board's pending closed-end review could cause credit unions to have to change their systems twice within the near future if they moved to closed-end lending. This could lead to higher rates for consumers.

Representatives Credit Union National Association, CUNA Mutual, and UW Credit Union met with staff of the Board's Division of Consumer and Community Affairs on Wednesday, May 28, 2008.

The representatives of the credit unions and credit union service providers:

- Restated their concerns expressed in September 2007 about the possible consequences of the Board's proposed definition of "open-end credit" on the way many credit unions structure consumer credit.
- Discussed a proposed alternative to the Board's proposed revisions to the definition of "open-end credit." They believe the alternative achieves the ultimate goal of transparency in disclosures and interactions with consumers but is less disruptive to consumers and credit unions than the Board's proposal. Under the alternative, credit unions would be required to reformat and enhance disbursement receipts currently provided in connection with additional advances under a plan. The current disclosure contains many elements of closed-end disclosures. The alternative would also allow for oral disclosures as long as the enhanced disclosure is provided within seven days. The enhanced disclosure would disclose in a tabular format the annual percentage rate, the amount of the loan advance, the number and timing of payments, including the due date for the first payment, the total dollar amount of finance charges for the advance and the total of payments, among other information.
- Discussed the results of a survey conducted by CUNA Mutual in March 2008. Approximately 60 credit unions responded to the survey. In addition to restating the cost estimates discussed in September 2007, the representatives indicated the March 2008 survey suggested cost estimates to reformat the existing disclosure were in a range of \$1000 to \$4000 per credit union.